

Self-Invested Pension Funds back to the future

Investments in Self-Invested Funds have gone full circle and are now returning to their roots. They were originally developed by some life companies to cater for pension clients' demands at the time - they were becoming more sophisticated and confident and required wider investment choice and control, something that up to then only Self-Administered Schemes could offer.

However Self-Invested Funds grew exponentially during and after the Credit Crunch due to clients' demands for security of their assets and access to irrational Irish bank deposit rates. Hence Self Invested assets under management grew markedly through investment in deposits and trackers.

With interest rates remaining low and deposit rates offering negligible returns, it has become very difficult for clients to achieve the returns they require through capital protected products and bank deposits. The risk / return trade-off is back on the table and they realise that some risk needs to be taken if their investment goals are to be met. But some will still want to maintain control over their investment choices in order to achieve their goals, or they believe that direct investment in global stocks and shares will deliver the growth they require.

Execution-only Trading

Execution-only stockbroker platforms allow clients to do this. The role of life companies is to provide clients with the ability to trade securities in a cost effective and easy to use manner.

Life companies have had to move with the times to do this, and offer a full range of global stock markets as well as an extensive universe of funds and cost-effective Exchange Traded Funds (ETFs). It needs to be flexible enough to add funds and ETFs if not on their list, once they meet admissibility guidelines.

As there is no provision of advice, clients will need to know the securities they want to trade themselves. The online stockbroker platform needs to allow them search, locate and trade that security in an efficient and cost effective manner. Other functionality should be provided to increase the user experience, such as monitoring their portfolios, inflows and outflows from their funds, and setting up watch lists to track portfolio or stock performance.

Wide range of investment options

There is increased awareness and sophistication among clients as to what they wish to invest in. For example they can just as easily gain information on shares in the US or Asia as they can in Ireland or the UK. Similarly they can look to invest in bonds (both Government and corporate), funds and ETFs. ETFs are becoming an attractive method of investing in a

basket of assets or stock market index at management charges that are much reduced from normal actively managed funds. The range of investments available means that execution-only trading does not necessarily mean high risk investing – diversification and choice of assets such as Government bonds can reduce risk to a level with which the client is comfortable.

All the while clients have the option for a simple switch request to move between the trading platform and the fund offerings under their pension contract, such as model portfolios and other unit linked funds.

Maintaining discipline and containing costs

Online execution-only trading is a very cost effective way to invest in the securities clients require. However, just as it is the clients' responsibility to decide what assets are traded, it is also their responsibility as to how much and how often to trade. The higher the value of the trade and the longer it is held, the more cost effective it is. However, the opposite is also true. Let's look at 3 examples of a client who has €20,000 to trade, and the trading commission is €15 per trade:

- **Option 1:** the client invests in one company's shares and holds it for a year. The annual percentage cost of the trade is 15 bps (or 0.15%).
- **Option 2:** the client invests €1,000 in 20 different companies' shares and holds them for a year. The annual cost increases to 150 bps (or 1.5%).
- **Option 3:** the client invests €1,000 in 20 companies, and sells them all before the end of the year (i.e. doubling his trading costs). The annual cost has increased to 300bps (or 3%).

As you can see, a buy and hold strategy is cost effective whereas buying and selling small quantities of stock regularly can quickly eat into any gains made.

Providing choice and flexibility

At Irish Life we have recognised the need to evolve our Self Invested Fund offering to remain aligned to clients' needs. If your client is knowledgeable, disciplined and requires control and flexibility in making their investment choices, our enhanced execution only trading service provides a cost effective and efficient fund option to have under their Complete Solutions pension plan.

Warning: The value of your investment may go down as well as up

Warning: If you invest in these funds you may lose some or all of the money you invest

Warning: These funds may be affected by changes in currency exchange rates

Irish Life Assurance plc is regulated by the Central Bank of Ireland.



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Stewart Taylor, Business Development Manager, Self-Invested Fund, Irish Life